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ABSTRACT

This "white paper" is intended to provide an overview of many questions and issues related to the affordability of higher education in Virginia and to provide a starting point for discussions and deliberations. The paper includes a timeline for the completion of a study of college costs in Virginia by the State Council of Higher Education for Virginia. Outcomes expected from this study are methodologies for assessing how state financial aid policies impact the affordability and accessibility of Virginia's public colleges and universities and determining the appropriate share of cost or alternatives for assessing the level of state funding for Virginia's public colleges and universities. It is also expected that the study will result in options for setting a coherent, long-term tuition policy for the Commonwealth of Virginia. A review of the current policy situation shows that there is a fragmented approach to setting policy in Virginia in the areas of tuition and fees, student financial aid, and state funding for higher education. The Commonwealth has rarely assessed the impact these policies have collectively on affordability and access. Without a more coordinated approach, Virginia's higher education system will continue to struggle with long-term planning to advance the state's goals. (SLD)

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A SCHEV White Paper

A Look at Affordability at Virginia's Public Colleges & Universities

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Revised

August 2002

SCHEV

STATE COUNCIL OF HIGHER EDUCATION FOR VIRGINIA

ADVANCING VIRGINIA THROUGH HIGHER EDUCATION

HE035080

In October 2001, the State Council of Higher Education for Virginia (SCHEV) directed staff to undertake a study of the affordability of higher education in Virginia. Although the study was originally focused primarily on evaluating the state's student financial aid policies, recent changes in the state's tuition policy and reductions in state general fund support have raised more far-reaching questions about affordability of interest to SCHEV and other state policymakers. This white paper is intended to provide an overview of many questions and issues in this policy area that confront the Commonwealth, perspectives on the impact of state policies on affordability over the last 10-20 years, and a timeline for the completion of the project. Further, this white paper is intended to provide a starting point for discussions and deliberations as SCHEV continues working on a comprehensive study of affordability to be released in fall 2003. However, this white paper does not draw any conclusions or make recommendations at this time. Recommendations will follow as the final study nears completion.

WHY STUDY AFFORDABILITY?

Over much of the last decade, the Commonwealth has aspired to make a college education more affordable for Virginia students. Most notably, the state has targeted resources to increase undergraduate student financial aid and limit increases in tuition and fees. Without question, the state's efforts have constrained, indeed even reduced, the price of an undergraduate education in the state and have provided critical resources to financially needy students. At the same time, significant increases in general fund support for higher education between 1994 and 2001 have resulted in the state paying an increasingly large share of the cost of education. Despite these gains, much of the state's progress has occurred absent coordinated policies for tuition, financial aid, or state funding of higher education and without clearly articulated goals for access and affordability.

As the Commonwealth faces yet another economic downturn, state policymakers, students, their parents, and institutional leaders are, once again, left with little ability to anticipate or plan for future investments in higher education – both private and public. The lack of continuity and predictability in the higher education funding environment makes it difficult to anticipate future costs, hence limiting the ability of students and parents to save effectively for college. Likewise, this level of uncertainty and clear direction for future funding goals and needs will make it increasingly difficult for the state to assess how best to use its limited resources to support not only the needs in higher education, but the needs for other services in the state. For college and university administrators, the unpredictability in both state support and in tuition and fee policy makes it difficult to develop and implement long-range planning.

Given the state's current economic conditions, the Commonwealth can ill-afford to continue making and amending state policies – tuition, financial aid, and state support for higher education – in isolation of one another. In fact, many of Virginia's higher education funding policies over the last decade have relied on cost-sharing policies based on the availability or desirability of using general fund versus nongeneral fund revenues to support higher education. These cost-sharing policies, in turn, have been used to determine the cost of education. As Virginia reassesses these policies, the Commonwealth should develop a more comprehensive and integrated approach to funding higher education – an approach that establishes a methodology

for the cost of education first, and only then, develop cost-sharing goals between students, their families, and the Commonwealth.

To facilitate this process, SCHEV staff has identified several questions that should be considered:

1. What is the cost of education in Virginia?

2. What is the state's role in supporting public higher education?

3. What are the Commonwealth's goals for promoting affordability and access? Does Virginia wish to achieve universal access for all students desiring to attend college? Is the state's goal to minimize the cost for students to the extent state resources are available? Is the Commonwealth seeking to establish an equitable share of cost among all students?

4. Should the state accept responsibility to assist students who cannot afford to pay the cost of their education? If so, at what level?

5. What responsibility should the student (or his family) have in paying for his or her education? Should the level of responsibility differ for in-state versus out-of-state students? For undergraduate versus graduate students?

6. Should the student's responsibility differ by family income or should all students be required to pay a flat rate?

7. What is the relationship between state higher education funding policies – in particular, the state's tuition and fee policies, financial aid policies, and the state's share of total educational and general (E&G) program costs? What should the relationship be?

Although these questions and issues are not new, the uncertainty of the Commonwealth's current economic condition, combined with significant anticipated enrollment growth over the next decade, requires that state policymakers address these questions with a new sense of urgency.

EXPECTED OUTCOMES

In Fall 2001, SCHEV directed staff to begin an extended study of college affordability in the Commonwealth. Through this study, SCHEV staff will develop policy and funding options that can be used to inform the 2004-06 budget development process. Specifically, the study will provide:

- **A methodology for assessing how state financial aid policies impact the affordability and accessibility of Virginia's public colleges and universities:** In 1999, SCHEV began questioning the effectiveness of the state's long-standing financial aid policy, which set a goal of funding 50% of aggregate student remaining need at each institution. Under the *Remaining Need* funding model, all institutions

are treated similarly despite disparities in the level of their average student financial need. For example, an institution with a student need of $1,000 receives $500 in state support for student financial aid under this policy. A different institution with a student need of $7,500 receives $3,750. Both institutions receive 50% of the student need, despite the fact that the student with $7,500 has a greater need barrier to overcome.

To address the shortcomings of the *Remaining Need* model, SCHEV introduced a new funding model in 2000. With additional revisions in 2001, the Governor and General Assembly adopted the new funding model, *Ensuring Greater Access*, during the 2002 legislative session via its allocation of additional funds to student financial aid. Through this study, SCHEV will assess the effectiveness of the *Ensuring Greater Access* model to determine how well the model addresses the funding needs of students at varying income levels and its impact on improving affordability.

- **Options for setting a coherent, long-term tuition policy for the Commonwealth:** For more than a decade, the state's tuition policy has been driven largely by the state's economic conditions. During periods of economic growth, institutions have been discouraged, and in some cases, prohibited from increasing in-state, undergraduate tuition rates. During periods of recession, institutions have been permitted, and at times encouraged, to increase tuition and fees in order to generate additional revenue for the institution. As a result, tuition rates have had less to do with the value of higher education – either as a private good or as a public good – than with the state's ability to fund higher education amidst other competing demands. The effect on the family's ability to afford a college education has been largely a secondary consideration. Through this study, SCHEV will identify options for establishing a proactive, long-term tuition policy based on clear affordability goals rather than reacting to the state's economic climate.

- **A methodology for determining the appropriate state share of cost or alternatives for assessing what level of state funding is appropriate for Virginia's public colleges and universities.** In the 2001 legislative session, the Joint Subcommittee Studying Higher Education Funding Policies recommended that the state re-establish a funding formula for higher education, similar to the Appendix M funding model used in Virginia from the late 1960s through the late 1980s. The base adequacy funding model relies on national data to establish spending norms among higher education institutions across the country. The model establishes a total funding goal for each Virginia institution, based on general fund and nongeneral fund support. Although the model has been widely endorsed by members of the General Assembly, the Governor, the State Council of Higher Education for Virginia, and the public colleges and universities, it has yet to be funded due to limited state resources. In addition, the Joint Subcommittee has not yet addressed what proportion of the funding shortfall should be paid by the state and what portion should be generated through student tuition and fees or other nongeneral fund revenue sources. This study will identify a methodology for establishing a cost-sharing policy between students and the state for consideration by the Governor and General Assembly as the state moves toward full funding of the base adequacy model.

The study will be completed in Fall 2003 in order to inform SCHEV as it develops budget recommendations for the 2004-06 biennium.

CURRENT POLICY ENVIRONMENT

Before exploring alternative policy options in these areas, it is important to understand the state policies already in place that govern tuition and fees, student financial aid, and the state share of cost for higher education. A brief review of the current state policies in each of these areas is provided below.

"High Tuition – High Aid" Policy

Traditionally, the Commonwealth of Virginia has operated under the basic principle that the most effective and efficient use of state taxpayer funds to support higher education is a policy of high tuition and high financial aid. Virginia consistently ranks in the top third nationally in both categories. The premise behind this policy is that families financially able to pay the full cost of tuition should do so with limited state assistance, while families with limited resources should receive financial assistance from the Commonwealth. This approach achieves the basic goal of providing assistance directly to those students and families with the greatest need and maximizes the use of tax revenues while promoting access to higher education. The problem, however, is that there are no specific indices for determining how high tuition should be, how much of the total cost of education should be subsidized by the state with taxpayer funds, nor how much state financial aid should be made available to students.

During the last decade, there has been an ongoing debate among the higher education community and policymakers about who pays and how much they should pay for a student's college education. What are the responsibilities of students, parents, the business community, and various levels of government for supporting college attendance for those students with financial need? This debate stems from concerns that while higher education has become increasingly important to the socio-economic welfare of both individuals and society, college may not be as affordable for students and families as it has been in the past.

In achieving this balance, state policymakers typically have attempted to address at least one of the factors that influence affordability in crafting state policies related to tuition, fees, financial aid and funding. These factors include cost, price, and subsidies. The College Board distinguishes between these three concepts in the following way:

- ***Cost*** refers to the expenditures associated with delivering instruction, including physical plant and salaries.

- ***Price*** reflects the expenses that students and parents face. ***Published price***, sometimes referred to as ***sticker price***, is the price institutions charge for tuition and fees as well as room and board in the case of students residing on campus. A full student expense budget also includes books, supplies, and transportation. ***Net price*** is what the student and/or family must cover after financial aid awards are subtracted.

- ***Subsidies*** include funds received from state, federal, local appropriations, and private philanthropic organizations that help offset the cost of a college education and reduce the price paid by students. For Virginia's public colleges and universities, the most significant subsidy comes from state government appropriations, which account for just under 75% of the total cost of education.

Given the significant state subsidies provided for public higher education in Virginia, it is important to understand how state funding for higher education is established and how state policies impact funding decisions.

State General Fund Support for Higher Education

Prior to the recession of the early 1990s, the Commonwealth used a cost-sharing policy to determine appropriate tuition levels. In 1976, Virginia introduced a 70/30 policy to establish more equitable tuition practices among institutions. Under this plan, E&G appropriations – those funds used to support the educational mission of the institution – were based on the state providing 70% of the cost of education and students contributing the remaining 30%. (The community college rate was 80/20).

The 30% component was comprised of two parts: 1) tuition and fee revenue from in-state students; and 2) tuition and fee revenue from out-of-state students. In order to meet the 30% goal, the policy required in-state students at Virginia's public four-year institutions to cover approximately 25% of the cost of their education. The remainder of the 30% revenue came from out-of-state students, who contributed 75% of the cost of their education.

For students and their families, this policy required that all students pay the same relative cost of their college education. However, it also recognized that the cost of education at one institution might be higher than the cost at another institution. Cost differences can be attributed to different faculty salary requirements, a differing mix of academic programs, differing levels of technology and equipment, or differences in numerous other cost factors. Thus, if one institution spent, on average, $5,000 per student on education-related expenses and another spends $6,000 per student, an in-state student at the first institution would be required to pay $1,500 toward the cost of their education, while the second student would be expected to pay $1,800. In both cases, the students would be paying 30%, but the second student would be paying more to cover the additional costs associated with his or her degree program at a specific institution.

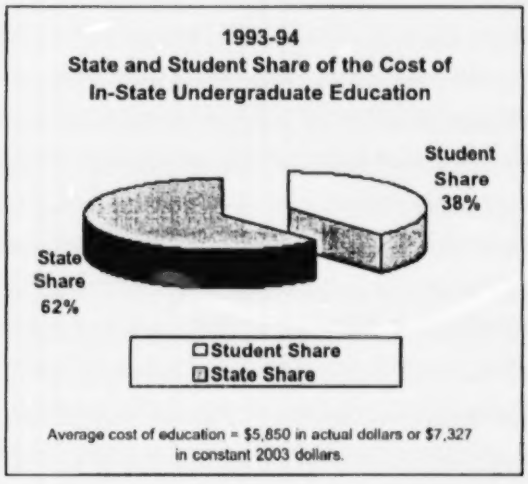
Despite the apparent equity of this policy, it fell victim to the recession of the early 1990s. As general fund support for higher education declined, large tuition increases were authorized to offset general fund budget reductions. As a result, students contributed up to 40% of the cost of education.

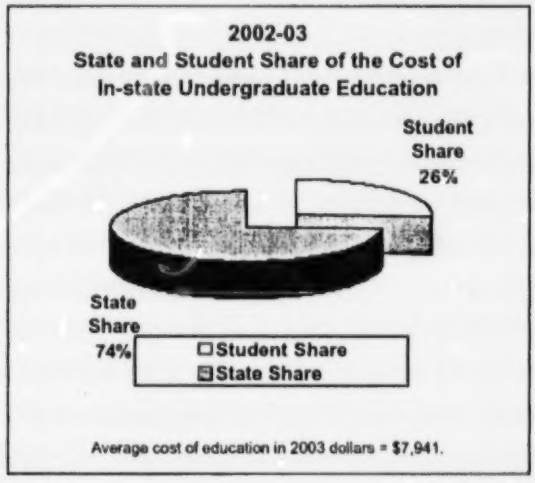
In an effort to combat lagging state revenues, the Commonwealth also implemented a state policy requiring institutions to set out-of-state tuition at a level that would cover at least 100% of the cost of education, based on an adjusted E&G appropriation per full-time equivalent student. Since that time, institutions have been required to set out-of-state tuition and fees at a level that will ensure that they recover at least 100% of the cost of the students' education.

During the 2000 legislative session, the Governor and General Assembly once again reaffirmed their desire that in-state undergraduate students should consistently pay a percentage of the cost of education, directing institutions to begin phasing in-state, student tuition charges to 20% of average cost at the community colleges and 25% at the other public institutions. For the 2001-02 academic year, 13 of the 15 four-year institutions met the stated goal of charging in-state undergraduates no more than 25% of the cost of their education. The system average was 23%. Based on the boards' recent approval of tuition for 2002-03, eight of the 15 four-year institutions will charge 25% of cost or less. In 2002-03, the average for the system will increase to 26%.

Lastly, the state has established a long-standing policy that Virginia does not provide general fund support in areas outside of the E&G program. The rationale for this policy is that expenses for room and board are needed whether or not a student attends college. In light of this, the Commonwealth has adopted an explicit policy to subsidize only the costs related to higher education instruction or other subprograms within the educational and general programs.

Not surprisingly, the actual share of cost provided by the Commonwealth has varied over time as state policies have varied. The charts below present the changes of the E&G cost sharing between in-state undergraduate students and the state over the years.


1993-94
State and Student Share of the Cost of
In-State Undergraduate Education
Student Share 38%
State Share 62%
Student Share
State Share
Average cost of education = $5,850 in actual dollars or $7,327 in constant 2003 dollars.



TUITION AND INSTRUCTIONAL FEES

The dramatic change in the share of cost borne by the state over the last decade reflects the state's aggressive actions to limit tuition and fee increases during the mid- to late-1990s. Faced with an 11% reduction in state support for higher education between fiscal years 1990 and 1994, Virginia's public colleges and universities increased tuition and mandatory instruction-related fees (also known as mandatory E&G fees) for in-state undergraduate students more than 50% during those years. The Governor and General Assembly responded in 1994 by implementing the first of a series of tuition policies aimed at reigning in escalating costs.

Although each institution's governing board is given authority in the *Code of Virginia* to set tuition and fee rates annually, state policymakers took action to limit the boards' authority to

increase tuition and mandatory E&G fees for in-state, undergraduate students to 3% annually over the 1994-96 biennium. The Governor and General Assembly subsequently acted to freeze tuition and mandatory E&G rates for in-state, undergraduate students beginning in fiscal year 1997. From 1997 through 2002, tuition and mandatory E&G fees for in-state, undergraduate students have not been increased. In fact, in 2000, the Governor and General Assembly appropriated $75 million in general fund support to offset a 20% reduction in tuition and mandatory E&G fees for in-state, undergraduate students.

After eight years of statewide tuition restrictions, however, Virginia undergraduate students are, once again, facing increases in tuition and mandatory E&G fees for the 2002-03 academic year. During the 2002 legislative session, the Governor and General Assembly took action to return tuition-setting authority to the institutions' governing boards. Specifically, Item 136E., Chapter 899, 2002 Acts of Assembly states:

1. ...the boards of visitors or other governing bodies of institutions of higher education shall determine tuition, fees, and charges for each fiscal year of the 2002-2004 biennium, provided that the boards of visitors make every effort to minimize the tuition and fee increases for in-state undergraduate students. It is expected that tuition increases for undergraduate in-state students shall not exceed nine percent per year.

2. In setting tuition and fee increases for each of the next two fiscal years, the boards of visitors are directed to consider the following: (a) the consumer price index; (b) in-state tuition charges of each institution's public peer group; (c) the maximization of other revenues by setting tuition rates for out-of-state students, graduate students and first professional students at market rate or higher without adversely affecting the access of in-state students to Virginia's public colleges and universities; (d) the reflection of the amortized cost of the construction and renovation of buildings approved by the Commonwealth of Virginia Educational Institutions Bond Act of 1992, the 21st Century College Trust and the Building Virginia's Future capital improvement programs in the tuition and fee rates for nonresident students; (e) the feasibility of setting aside a portion of the tuition increase to provide additional financial aid resources, in combination with state, federal, and private resources; (f) the impact of tuition increases on access and the availability of student aid; and (g) the impact of a tuition increase on the composition of the institution's applicant pool.

3. In determining tuition and fee charges, the boards of visitors or other governing bodies of institutions of higher education shall (a) make every effort to achieve potential cost savings as opposed to tuition increases and (b) not increase the current proportion of nonresident undergraduate students if the institution's nonresident undergraduate enrollment exceeds 25 percent.

While it seems clear that the Governor and General Assembly still have concerns over unfettered tuition increases, the budget language does not establish an explicit tuition policy for the Commonwealth for the 2002-03 or 2003-04 academic years, nor does it address how tuition relates to state appropriation decisions or financial aid needs.

Although the policy differs from previous tuition policies over the last decade, the trend remains the same. Since the recession of the early 1990s, tuition, financial aid, and appropriation decisions in Virginia have been driven less by the cost of education than by the price charged to students and their families. Often, they have been made based on public willingness and ability to raise tuition or the availability of state general fund resources. In fact, the Commonwealth has lacked consistent and coordinated policies for setting tuition rates, supporting student financial aid, and identifying state support for higher education since the late 1980s.

Other Student Fees and Charges

Although state support for higher education is directed only to the instructional mission and related support services at the institution, the impact of state policy on other fees and student charges ultimately impacts the price a student pays for his or her education, and, as a result, the affordability of a college education. As with tuition and mandatory E&G fees, in 1998, the Governor and General Assembly began limiting institutional board authority to increase mandatory non-E&G fees to the Consumer Price Index rate of inflation. These charges, often referred to as mandatory non-E&G fees, support activities such as athletics, student health services, campus transportation and debt service. Unlike instruction, these non-educational activities receive no state tax support and are funded almost entirely by student revenue. Authorized increases for mandatory non-E&G fees in excess of inflation are generally used to support state-mandated wage and salary increases and funding for non-educational capital projects approved by the General Assembly.

For a student choosing to live on-campus, the price of attending college is further impacted by room and board charges, which can dramatically increase the cost to students and their families. Based on anticipated charges for the 2002-03 academic year, room and board fees will account for more than 50%, on average, of the price of attending college for a Virginia student. Therefore, for the student looking to live on-campus at a public Virginia institution, he or she must consider the total price, including tuition and E&G fees, mandatory non E&G fees, room and board charges, and other incidental charges, such as books and materials.

State Financial Aid Policies

While the state's tuition and fee policies have largely been developed in response to increases or decreases in state general fund support for higher education, the Commonwealth's financial aid policies have evolved as tuition policies have changed over time. In an effort to respond to rising tuition and fees, policymakers increased financial aid dollars between the mid 1980s and early 1990s. Between 1980 and 1988, for example, the state increased appropriations to state financial aid programs by 60%. This increase, however, was not enough to offset the 162% rise in tuition and fees and the percentage of cost that students and parents were left to pay.

In the early 1990s, while tuition increased about 45%, the state increased its discretionary aid (state's need-based financial aid program) appropriations from $20 million to $63 million. However, with decreases in federal grant aid and the increases in borrowing, the additional state financial aid did not completely address the growing financial burden of higher education on students and their parents. Financial aid data from 1993-94 indicate that students were using

loans to pay for a growing portion of their higher education costs (Virginia House Document 55, 1996). During that period students at state institutions received $62 million in Pell Grants and borrowed at least $132 million in loans (Virginia House Document 55, 1996).

In 1996, a Commission established by Virginia Senate Joint Resolution 139, was tasked with outlining the future of higher education in Virginia. In its final report, the Commission recommended that need-based financial aid for students attending public institutions should keep pace "with both cost increases and with the increasing number of students who are eligible" (Commission on the Future of Higher Education in Virginia, 1996). For this purpose, the Commission endorsed SCHEV's recommendation to increase state financial aid support until it met 50% of the aggregate student remaining need at each institution. The Commission's report noted that while appropriations to financial aid programs have more than doubled over the last three biennia, the Commonwealth has slipped from meeting 50% of the aggregate student remaining financial need to 35%.

The 50% goal was based on a SCHEV recommendation from 1985, which suggested that the state should provide financial assistance for a certain percentage of the aggregate student remaining financial need after all other forms of financial aid were considered (Virginia House Document 67, 1996). This policy, called *Remaining Need*, assumed that students would be able to find alternative funding, such as loans or part-time employment, to cover the financial need not met by all forms of grants and scholarships.

In an effort to equally fund institutions, the same percentage of the *Remaining Need* formula was applied to all institutions. In 1990-91, appropriations for discretionary aid met 50 percent of institutions' aggregate remaining need and, in 1993-94, met 45% of aggregate remaining need (Virginia House Document 67, 1996). After the merger of the discretionary aid program and Virginia's merit based program, Virginia Guaranteed Assistance Program, in 1995, the percentage of that aggregate remaining need met slipped to less than 35%. While there were recommendations from policymakers and SCHEV to increase funding to meet 50% of remaining need, the state still currently (2001-02) meets only 42% of *Remaining Need*.

Two years ago, SCHEV revisited this policy to determine whether the *Remaining Need* model provided a high level of access to those students and their families most needing assistance. In reviewing this methodology, several problems became apparent. First, meeting a specific percentage of *Remaining Need* at an institution does not guarantee that the funding is sufficient to meet each individual student's need. Second, funding each institution at the same percentage of *Remaining Need* results in some institutions with higher average need having a substantially higher amount of unmet student financial need than other institutions with lower average financial need.

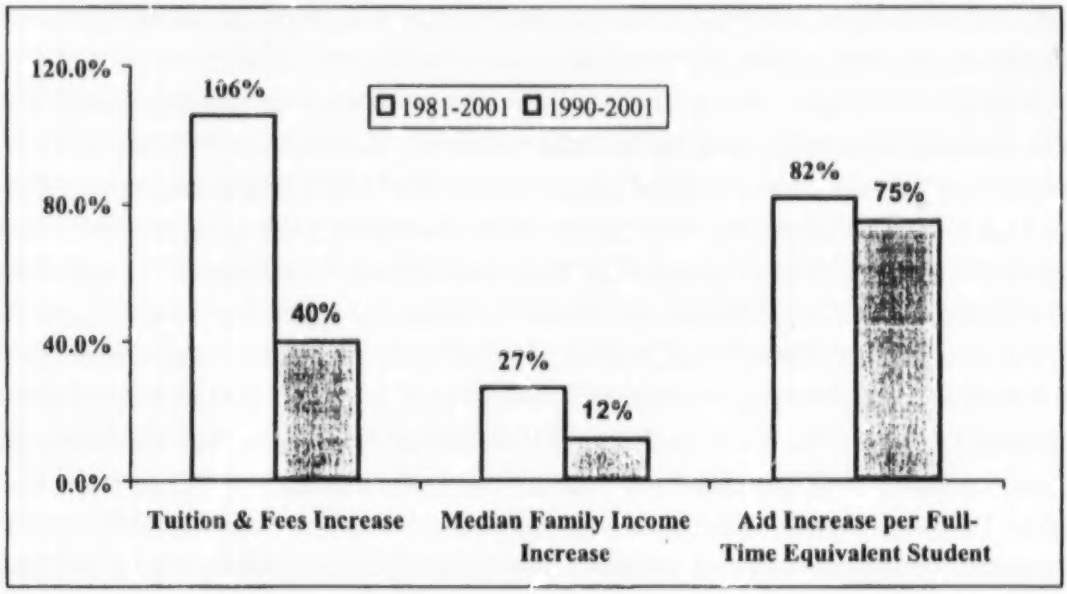
Recognizing the inequities in the current methodology, SCHEV recommended to the Governor and the 2001 General Assembly a full funding of a new formula for state financial aid. Due to the budget impasse in 2001, the Governor and General Assembly never acted on the newly proposed model. Following additional revisions in 2001, SCHEV continued to recommend the new model – named *Ensuring Greater Access* – during the 2002 legislative session. Both the Governor and General Assembly adopted the *Ensuring Greater Access* methodology via its allocation of additional funds to student aid in the 2002-04 biennium.

The *Ensuring Greater Access* formula differs from *Remaining Need* in that it incorporates all reasonable sources of self-help (subsidized federal loans and available work-study) to determine the level of need and a reasonable level of student burden. Additionally, unlike the *Remaining Need* model, which implicitly assumes students will use loans to help pay for 50% of their remaining need, the *Ensuring Greater Access* model explicitly assumes all students share the same burden and establishes a goal for the state to fund 100% of unmet need. Ultimately, under the new model, more financial aid funds are shifted to the institutions with the highest average aggregate student need.

NATIONAL TRENDS IN AFFORDABILITY

In the past two decades, the cost of attending college has risen faster than the Consumer Price Index nationally and has outpaced the growth of personal and family income. The College Board reports that after inflation adjustments, the average tuition and fees at both public and private four-year institutions nationwide more than doubled from 1981 to 2001. At the same time, the median family income rose 27%, while student financial aid from all sources increased 82%. Taking into account other college costs beyond tuition and fees (e.g., room and board), the share of family income needed to pay for total college expenses increased for many families – particularly low and middle income families (College Board: *Trends in College Pricing 2001*).

Inflation Adjusted Changes in Tuition, Family Income and Student Aid



Source: College Board, 2001.

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Like the rest of the nation, Virginia experienced significant increases in tuition and fees throughout the 1980s and much of the early 1990s. During the 1980s, average tuition and mandatory fees for in-state undergraduate students at Virginia's four-year public colleges and universities increased by 154.1%. Even after adjusting for inflation, costs rose 73.2% during the decade. However, as tuition and fess continued to rise in other states across the country in the mid- and late-1990s, Virginia's tuition and fees actually declined. The result, as shown in the chart below, is that Virginia has made significant progress in lowering its national rankings and in making its public institutions more cost-competitive regionally and nationally.

Tuition and Fees

Rank Among All States[1]

	1989-90	1993-94	2000-01	2001-02	Estimated 2002-03
Major Public Universities	8th	5th	18th	18th	18th
University of Virginia					
Public Colleges and State Universities	2nd	2nd	11th	12th	12th
George Mason University **Old Dominion University** **James Madison University** **Longwood University** **Radford University**					
Public Community Colleges	28th	19th	41st	43rd	43rd

[1] Based on a survey conducted by the Washington State Higher Education Coordinating Board. Although not all public institutions are included in this survey, the averages and changes over time at the same set of institutions offer consistency, and the large number of institutions included provides a close approximation to state averages.

Another way to look at the "affordability" of higher education is to consider total charges as a percent of per capita disposable income. According to the Bureau of Economic Analysis at the U.S. Department of Commerce, *per capita disposable income* is the income that is available to persons for spending and saving. It is calculated as personal income less the sum of personal income tax payments and personal non-tax payments (donations, fees, fines, and forfeitures) to government. Average cost, in this case, includes tuition, all mandatory fees, and room and board for Virginia in-state undergraduate students and comparable national data from four-year institutions. As the chart below demonstrates, while college costs increased relative to disposable income nationally during this time, the cost of a college education in Virginia has moderated.

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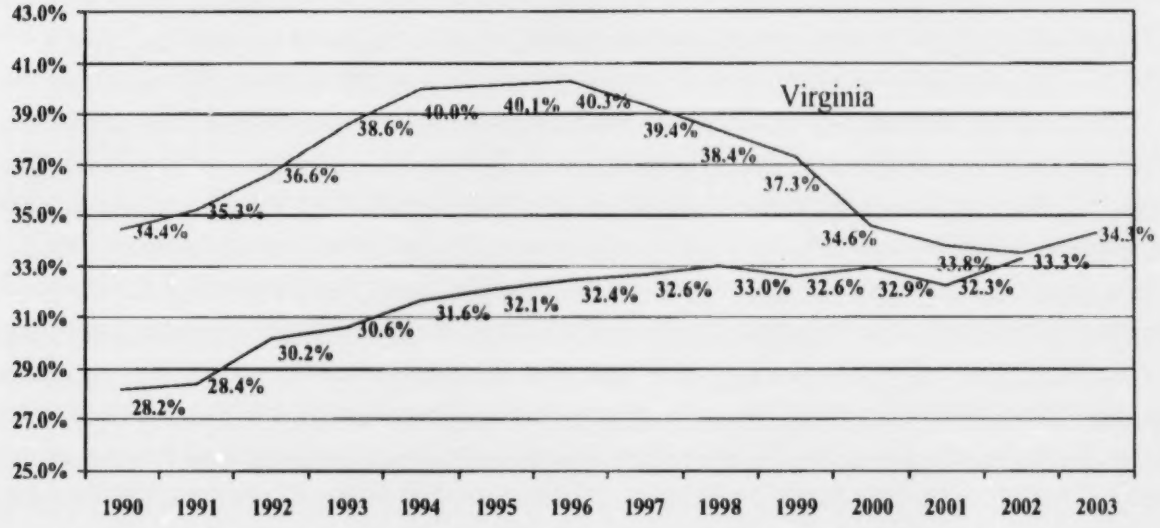
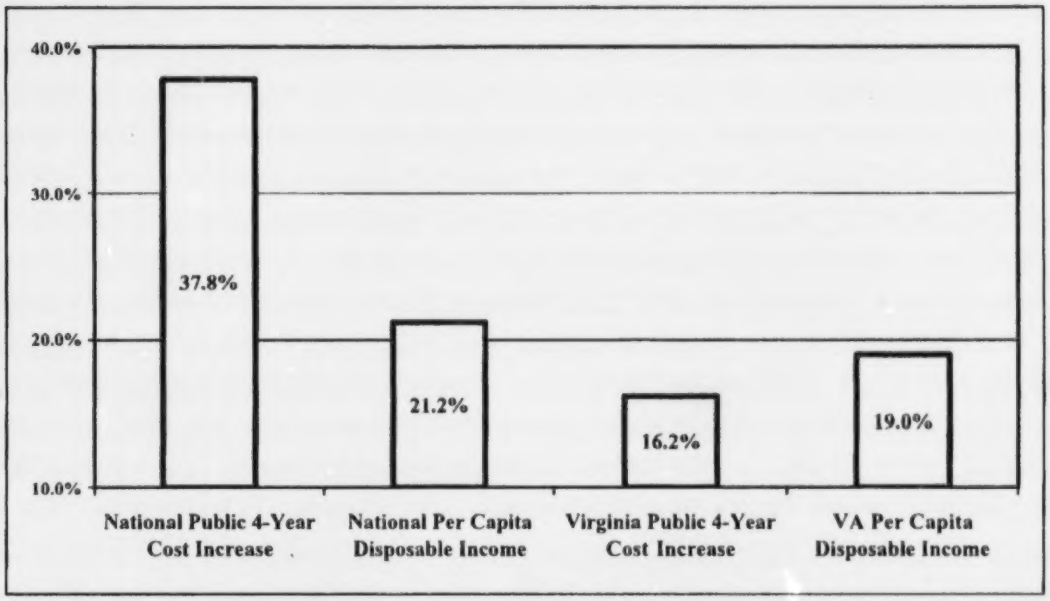
Average Public 4-Year Total Undergraduate Cost as a Percent of Per Capita Disposable Income



In 1990, Virginia's per capita disposable income was about 5% higher than the national average. In contrast, the median total undergraduate charge (including room and board) for in-state, undergraduate students was nearly 30% higher than the national norm. Nationally, total charges represented 28.2% of per capita disposable income. In Virginia, the rate was 34.4%. By 2002, the relationship between student charges and income had changed substantially in Virginia. While Virginia's income was still approximately 5% higher than the national average, total student charges were also about 5% higher than they were nationally. As a result, total charges for in-state undergraduates represented about the same percentage of income in Virginia (33.5%) as they do nationally (33.3%). National data for 2002-03 will not be available until late 2002, so the impact of the proposed tuition and fee increases has not yet been evaluated.

Yet another way to assess the impact of cost increases on affordability is to compare the percent increases in higher education costs and family income. The chart below indicates that after inflation adjustments from 1989 to 2001, college costs at public four-year institutions in Virginia have increased less rapidly than individual wealth (as measured by per capita disposable income), while nationally the college costs have increased faster than individual wealth. All these analyses of cost increases in higher education clearly indicate that Virginia has been a national leader in containing the cost of attending college over the last several years. It is too early to assess the impact of newly approved tuition and fee increases for the 2002-03 academic year.

Percentage Increases from 1989 to 2001
(In 2001-02 Constant Dollars)



Notes: Costs include tuition, fees, room, and board.
Sources: The College Board and SCHEV.

National comparisons for state student financial aid programs are more difficult, because so much of financial aid policy depends on federal funding. The federal government's shift in financial aid policy over the last two decades – from one of providing mainly grants to students to that of making loans more readily available – certainly is a major issue in any discussion of affordability. The first obvious shift occurred in the 1980s when many federal grant aid programs were eliminated or restricted. The reduction of federal grant aid programs ended the rapid growth of federal assistance that occurred throughout the 1970s. The Pell Grant, for example, was established in the mid 1970s to maximize access to low-income families. At one time it covered 39% of the average undergraduate price at a four-year public institution. Today, due to the substantial increase in college costs, the Pell Grant buys about 22% of the average undergraduate price at a four-year public institution (The Institute for Higher Education Policy, 1999).

The shift in federal financial aid policy to emphasize loans was most noticeable in the last decade. In an effort to address families' need to pay rising tuition costs, Congress enacted three key changes to the Higher Education Act in 1992 (King, 1996). First, the rise in federal borrowing limits resulted in an increase in the amount students were borrowing and thus owed after completing their education (King, 1996). The second change impacted the formula for calculating a student's Expected Family Contribution (EFC). Under the new formula, several common financial assets for middle-income families were no longer included in the calculation of the EFC. This change made more middle-income families eligible for need-based aid, including Subsidized Stafford Loans (King, 1996). The third change was the creation of the Federal Unsubsidized Stafford Loan program. This program provided a new borrowing vehicle for students regardless of financial need. However, unlike subsidized loans where the

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government pays the interest while the student attends school, unsubsidized loan interest charges accrue while the student is in school and are added to the amount the borrower must pay. Experts believe such unsubsidized loans have contributed to the increase in student borrowing in the 1990's. They now account for about 40% of federal student borrowing through the Stafford Loan program (The Institute of Higher Education Policy, 1999).

Aided by the above changes, federal loan programs have increased by 136% (in constant dollars) over the last decade. By contrast, grant aid has increased by 64% during that same period. As a result, by 2000-01 loans constituted 58% of total aid available to students, compared to 49% 10 years ago, and 41% in 1980–1981 (College Board, 2001). As the federal government has moved increasingly to loans over grants, pressure for state support to help offset the price of college for low income students will continue to mount.

Beyond its loan programs, the federal governments efforts to offer tuition tax credits and to establish federal laws that promote the creation of state-sponsored college savings plans have created new opportunities to further student access to higher education. These policies have also, however, further muddied the waters with respect to assessing student affordability and for delineating the appropriate role for students, states, and the federal government in promoting and maintaining access and affordability in higher education. Only time will tell what the long-term impact will be.

ASSESSING AFFORDABILITY

Given the fragmented approach to setting policies in each of these areas – tuition and fees, student financial aid, and state funding for higher education – the Commonwealth has rarely assessed the impact these policies have collectively on affordability and access. Without a more coordinated approach, Virginia's higher education system and the students it serves will continue to struggle with long-term planning that advances the state's goals.

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